

2023 TAX REPORT FOR JOHN SMITH AND SALLY SMITH

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KEY FIGURES

Total Income:	\$114,550	Filing Status:	Married Filing Jointly	Tax Exempt Interest:	\$200
AGI:	\$114,550	Marginal Rate:	12.0%	Qualified/Ordinary Dividends:	
Deductions:	\$30,700	Average Rate:	7.9%		\$2,250 / \$10,000
Taxable Income:	\$83,850	2024 Safe Harbor:	\$8,995	ST/LT Capital Gains:	
Total Tax:	\$8,995	Tax Exempt Pct. of Total Interest:	8.7%	Carryforward Loss:	\$0
				Total/Taxable Social Security:	\$57,000 / \$48,450

MARGINAL TAX BRACKET INFORMATION

The marginal tax rate for your *ordinary income* is as follows:

Marginal Rate	Ordinary Income Threshold	
10.0%	\$0 to \$22,000	
12.0%	\$22,000 to \$89,450	You: \$78,600
22.0%	\$89,450 to \$190,750	
24.0%	\$190,750 to \$364,200	
32.0%	\$364,200 to \$462,500	
35.0%	\$462,500 to \$693,750	
37.0%	\$693,750 and above.	

The marginal tax rate for your *capital gains and qualified dividends income* is as follows:

Marginal Rate	Taxable Income Threshold	Qualified Income (\$5,250 Total)
0.0%	\$0	You: \$83,850 / \$5,250
15.0%	\$89,250	\$0
20.0%	\$553,850	\$0

MODIFIED ADJUSTED GROSS INCOME TIERS

Planning Opportunity	Limits	Over/Under?
Net Investment Income Tax	\$250k	Under
Coverdell ESA	\$190k - \$220k	Under
Roth IRA Contribution	\$218k - \$228k	Under
Lifetime Learning Credit	\$160k - \$180k	Under
Student Loan Interest Deduction	\$155k - \$185k	Under
American Opportunity Credit	\$160k - \$180k	Under
Child Tax Credit	\$400k - \$440k	Under
Qualified Adoption Expenses Credit	\$239k - \$279k	Under
Saver's Credit	\$44k - \$73k	Over
IRA Contribution Deductibility - Covered Spouse	\$116k - \$136k	Under
IRA Contribution Deductibility - Non-Covered Spouse	\$218k - \$228k	Under
Clean Vehicle Credit (New)	\$300k	Under
Clean Vehicle Credit (Used)	\$150k	Under

MEDICARE PART B/D PREMIUMS FOR 2025

Medicare Parts B and D premiums can be impacted by Modified Adjusted Gross Income* (MAGI). Amounts below are in addition to the base premiums. Amounts are monthly per person.

*MAGI = AGI + Tax-Exempt Interest

MAGI Threshold	Part B Premium Adjustment	Part D Premium Adjustment	You:
\$0 to \$206,000	\$0	\$0	\$114,750
\$206,000 to \$258,000	\$70	\$13	
\$258,000 to \$322,000	\$175	\$33	
\$322,000 to \$386,000	\$280	\$54	
\$386,000 to \$750,000	\$384	\$74	
\$750,000 and above.	\$419	\$81	

SCHEDULE D - CAPITAL GAINS/LOSSES

The tax return listed the following sources of capital gains/losses:

SHORT TERM

Description	Amount
Short Term Gain/Loss for 2023	\$1,000
Short Term Loss Carryover from 2022	\$0
Total Short Term Gain/Loss for 2023	\$1,000

LONG TERM

Description	Amount
Long Term Gain/Loss for 2023	\$3,000
Long Term Loss Carryover from 2022	\$0
Total Long Term Gain/Loss for 2023	\$3,000

TOTAL

Total Gains/Losses for 2023	\$4,000
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SCHEDULE B INCOME SOURCES

The tax return listed the following income sources on Schedule B:

INTEREST

Description	Amount
LAKE MICHIGAN CREDIT UNION	\$2,000
FIDELITY	\$100

DIVIDENDS

Description	Amount
FIDELITY	\$10,000

OBSERVATIONS

Less than 50% of dividend income came from qualified dividends. You may consider reviewing the portfolio to determine if this percentage can be increased to reduce the overall tax paid on dividends.

\$48,450, or 85%, of your total Social Security earnings of \$57,000 was taxable as ordinary income. Social Security income is excluded from taxes to varying degrees, based on total income from other sources.

Your taxable income appears to be low enough to have allowed you to recognize long term capital gains at a 0% tax rate. If you expect to have low taxable income this year as well, you might consider taking some or all of any unrealized capital gains you might have.

Given that you are in a lower marginal tax bracket, you may consider converting any eligible retirement accounts to Roth

The 2024 safe harbor for underpayment penalties is your total tax x 100%, or \$8,995. Note that the timing of your payments is also important with respect to avoiding penalties. Withholding from a paycheck or retirement account distributions are considered to have happened throughout the year, but estimated tax payments should be timed to correspond with the timing of the income earned. A tax professional should be able to help in cases where income is uneven throughout the year.

Your Modified Adjusted Gross Income (MAGI) suggests you are eligible to contribute to a Roth IRA. Note that Roth contributions must come from what the IRS calls "compensation income". This tax return does not appear to include compensation income.

Your tax return does not list any HSA contributions. If you are eligible to contribute to an HSA, you will get a tax deduction, regardless of whether you itemize or take the standard deduction.

You owed additional taxes beyond any withholding or estimated tax payments. If this was due to a one-time event, you may not need to take any action. If not, consider adjusting your withholding to avoid any surprise lump sum payments due at tax time.

Your return indicates that the entirety of IRA distributions for the year were taxable. Confirm that your total IRA distributions didn't include any Qualified Charitable Distributions (QCDs) or the return of any basis (which should be reported on Form 8606), as either activity would result in a portion of an IRA distribution that is not subject to taxation.

Your modified adjusted gross income (MAGI) appears to be low enough to qualify for either the new or used clean vehicle credit for a purchase of an eligible vehicle this year or next year, assuming that purchase meets the other eligibility criteria.

CALIFORNIA STATE TAX HINTS

Social Security benefits are not taxed.

HSA contributions get added back to AGI for California income tax purposes. California also considers any interest or capital gains you earn in your HSA as taxable income.

529 plan withdrawals for K-12 tuition are taxable plus a 2.5% penalty.

Miscellaneous deductions can be itemized, subject to 2% state AGI floor.

Section 179 deductions are limited to \$25,000 and bonus depreciation is not available.

Losses from active real estate participants are not deductible.

Use tax on out-of-state purchases is due if sales tax was not paid at the time of purchase or if sales tax paid was lower than that of California.

Capital gains are taxed as ordinary income.

Safe harbor on estimated taxes is not allowed if California adjusted gross income is over \$1 million (\$500,000 MFS) . Taxpayers must pay estimated taxes based on the actual expected tax. Also, quarterly payment rules are more stringent than at the Federal level, so take care to avoid penalties (for example, in the event of a large capital gain during the year).

Alimony received is treated as income. Alimony paid is deductible.

There is no 3rd quarter estimated payment. California has an estimated payment schedule of Q1: 30%, Q2: 40%, Q4: 30%.

The 2017 Tax Cut Jobs Act imposed a \$10,000 limitation on individuals' deduction of state and local taxes (SALT) for tax years 2018 through 2025. In response, many states have now enacted laws allowing pass-through entities (PTE) to elect to pay SALT at the entity level as a PTE tax in order to exceed the TCJA SALT deduction limitation. Please consult with a tax professional as it relates to your state's PTE tax ruling.

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- NIIT = AGI + Excluded Foreign Earned Income
- Coverdell, Lifetime Learning, American Opportunity, Child Tax Credit MAGI, Adoption Credit, Saver's Credit = AGI + Excluded Foreign Earned Income + Housing
- Roth MAGI = AGI - Taxable Roth Conversions + IRA Deduction + Student Loan Interest Deduction + Tuition and Fees Deduction + Excluded Foreign Earned Income + Housing
- Student Loan Deduction MAGI = AGI not including student loan interest + Excluded Foreign Earned Income + Housing
- IRA Deduction MAGI = AGI + Student Loan Interest Deduction + Tuition and Fees Deduction + Excluded Foreign Earned Income + Housing